The Seven Habits Of Highly Effective Retirement Plan Advisors
Habit #1
Identify the Plan
Potential Plan Sponsor Pain Points

• Overall Costs
• Plan Administration
• Non-discrimination Testing
• Plan Participation Rates
• Plan Deferral Rates
• Fiduciary Concerns
• Regulatory Concerns
• Employer Bandwidth
Reducing Your Health Care Costs By Investing In Your Retirement Plan

• Employer and employee retirement goals are aligned
  – Employees want to retire on their own terms
  – Employers need to replace older workers with younger workers to survive in a more competitive global economy

• Effective retirement plans have the potential to not only
  – Improve employee recruitment and retention
  – Allow for owner/executive contributions and tax advantages
  – Improve employee morale and productivity
  – But also may provide solid ROI in the form of employee expense reduction

If your employees need to delay their retirement, what does that cost you?
Employer Cost Difference – Older Vs. Younger

1500%

Annual benefit cost increase for employees 60 or older vs. employees 30 or younger includes:

• Health care premiums ($9,000 vs. $2,500)
• Disability Insurance Premiums ($532 vs. $32)

Absenteeism

• People age 45 to 64 miss 66 days a year on average compared with 53 days for those age 20 to 34

Habit #2
Improve Participant Outcomes
Low U.S. Savings Rate

Health Education Labor and Pensions (HELP) Committee Report: The Retirement Crisis and a Plan to Solve It

• Retirement income deficit $6.6 trillion\(^1\)
• \(\frac{1}{2}\) of Americans have less than $10,000 in savings

2. As of January 2012
Health Care Costs in Retirement

$220,000

Estimate of personal savings needed to cover medical expenses in retirement

Assumptions

• 65-year-old couple retiring in 2013
• Covered by Medicare
• Excludes nursing home care
• Estimate increases approximately 6% each year

Source: Fidelity Investments®, 2012.
# Health Care Costs in Retirement

<table>
<thead>
<tr>
<th>Population</th>
<th>Average Annual Health Care Expenses</th>
<th>Average Percentage of Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older Americans</td>
<td>$4,769</td>
<td>12.2%</td>
</tr>
<tr>
<td>General Population</td>
<td>$3,313</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

**Health care savings competing with retirement savings**

- 56% say higher health care costs have caused them to save less for retirement *
- 401k savings now competing with Health Savings Accounts (HSAs)

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* Source: Administration on Aging, A Profile of Older Americans: 2011
* Bank of America Merrill Lynch survey of 1000 employees.
Retirement May Be Delayed

% of Population by Age Group Planning to Delay Retirement Due to the 2008 Financial Crisis

- Age 25–34: 11%
- Age 35–44: 23%
- Age 45–54: 42%
- Age 55–64: 44%

Source: The Conference Board Consumer Confidence Survey (March 2010).
Habit #3
Leverage Inertia
Plan Design Objectives

- Get Employees Enrolled in the Plan
- Maximize Contributions
Increasing Plan Participation Through Automatic Enrollment

Affirmative election vs. automatic enrollment

• Using inertia/inaction to increase participation
  – Employees automatically entered into the plan unless they opt out
  – Default elective deferral rate
• Design flexibility
  – Deferral rate for automatic enrollment
  – New employees vs. existing employees

Employee automatic enrollment experience

• Advance notices
• Ability to change automatic enrollment defaults
  – Deferral rate
  – Investments
Automatic Deferral Increases

Automatic deferral increases

- Automatic enrollment gets them in the plan
- Automatic escalation increases their savings rates
  - Automatic increases unless opt out

Design flexibility

- Deferral rate
  - Initial deferral typically relatively low (e.g., 3% or 4%)
  - Gradually increase at a stated interval (e.g., 1% or 2% per year)
  - Capped at a maximum deferral rate (e.g., 6%, 10%, 15%)
- Paired with automatic enrollment
- Offered in plans without automatic enrollment
Additional Options for Maximizing Contributions

Stretching the matching contribution
• Require higher contribution rate to receive full employer match
• Example
  – Original match: 50% match on deferrals up to 6%
  – Stretch match: 25% match on deferrals up to 12%

401(k) safe harbor plans
• Exempt from ADP and ACP testing, top-heavy contributions
  – Enables higher savings rate for HCEs in some plans
• Mandatory employer contributions
  – 100% match of first 3% of pay deferred and 50% match on next 2%
  – 3% non-elective contribution

Offer to complete a cost/benefit analysis
Qualified Default Investment Alternative (QDIA)

• Qualified Default Investment Alternative (QDIA) purpose
  – Originally created by Congress to encourage automatic enrollment but available for other participant-directed plans
  – Provides plan sponsors relief from fiduciary risk associated with default investment selection
  – Employers are not required to offer a QDIA

• Four investment vehicles qualify as a QDIA
  – Life-cycle or targeted-retirement-date fund
  – Professionally-managed account
  – Balanced fund
  – Capital preservation product – only the first 120 days of participation
Habit #4
Act as a Fiduciary
## Fiduciary Responsibilities

<table>
<thead>
<tr>
<th>Strict Standards of Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusive purpose</td>
</tr>
<tr>
<td>Prudent “expert”</td>
</tr>
<tr>
<td>Diversify investments</td>
</tr>
<tr>
<td>Follow plan document</td>
</tr>
<tr>
<td>Pay reasonable fees</td>
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</tbody>
</table>
Understanding the Consequences of Being a Fiduciary

- ERISA lawsuits may be initiated by a plan fiduciary or by affected participant(s)
- DOL sanctions and penalties
  - Civil
  - Criminal
- Personal liability for plan losses
  - Restore plan losses (including interest)
  - Return ill-gotten gains
  - Bear expenses for corrections process (e.g., appraisals, calculations)
- Co-fiduciary liability
  - Fail to take corrective actions once aware of a breach
  - Knowingly participate
**Investment Fiduciaries**

**Non-fiduciary advisor**
- Introduce investment options
- Generic investment education and enrollment services
- Vendor searches
- Plan reporting and analytics
- Help plan sponsors understand THEIR fiduciary responsibility

**3(21) Investment Adviser**
- Shared fiduciary responsibility
- Typically appointed (service agreement)
- Deemed fiduciary based on actions

**3(38) Investment Manager**
- Transfer of plan sponsor’s fiduciary responsibility for selecting and monitoring investments
- Must be a bank, insurance company, or RIA
- Written agreement
The differences between education and advice are not so subtle anymore...

*If you don’t provide investment advice then what do you do?*

80% of advisors who specialize in retirement plans consider themselves fiduciaries

Source: Retirement Research, Inc.
## What Services Am I Going to Offer?

<table>
<thead>
<tr>
<th>Fiduciary</th>
<th>Non-Fiduciary</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPS Development and Maintenance</td>
<td>Vendor Search</td>
</tr>
<tr>
<td>QDIA Analysis and Selection</td>
<td>Benchmarking</td>
</tr>
<tr>
<td>Model Portfolio Management</td>
<td>Participant Education</td>
</tr>
<tr>
<td>Plan Sponsor Advice</td>
<td>Committee Support</td>
</tr>
<tr>
<td>Participant Advice</td>
<td>Compliance Assistance</td>
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</tbody>
</table>
Habit #5
Have a Consistent IRA Rollover Strategy
Most Common Plan Advisor Rollover Strategies

**Plan Fiduciary Only**
- Does not accept rollovers
- Conflict of interest concerns
- Typically work with larger plans
- Often charge a flat fee for service

**Rollovers as Primary Objective**
- Typically offer educational services as a means to farm for rollovers
- May have team of junior advisors that call out to plan participants
- Typically will not serve in fiduciary capacity for plan

**Rollover Partnership**
- Pass rollovers to a separate advisor, most often as the same firm
- Referral fees in some cases
- Typically done by advisor with insurance or benefits background handing rollover to wealth management colleague
Pursuing Rollovers In An Evolving Regulatory Landscape

If you serve as a non-fiduciary advisor:

• Should not need to take extra steps to accept rollovers from qualified plans
• UNLESS you become an accidental fiduciary (provide services to the plan that cause you to become a fiduciary)

If you serve as a fiduciary advisor:

• The offering of rollover services must be separate and distinct from your role as a 3(21) and/or a 3(38) fiduciary of the plan
• The services you provide for rollovers must not be related to the service agreement you have with the plan
• If you are going to accept rollovers from participants in the plan, you should have them sign off on a document that states that they are doing this on their own volition and that they understand that this transaction is separate from the qualified plan
• If you fail to take these steps you could be viewed as a fiduciary on the rollover and open yourself up to prohibited transactions and possible legal action

FINRA Notice 13-45

• FINRA issued this Notice in 2013 to remind firms of their responsibilities when recommending a rollover from an employer-sponsored plan to an IRA. In particular, ensure it is suitable to the client’s unique needs and circumstances, and the information provided is fair, balanced and not misleading.
Habit #6
Document Everything
Have a Process and Document It

✓ Establish prudent policies and procedures

• Develop written policies and procedures
  – Investment Policy Statement
  – Procedures for selecting and monitoring service providers
  – Process for making timely deferral deposits

• Keep written records of key decisions
  – Committee meetings
  – Investment reviews
  – Service provider replacements
Encourage Plan Sponsors to Form Committees

✓ Use plan committees effectively

• Written operating procedures and responsibilities
• Initial and ongoing committee member education
  – Business objectives for the plan
  – Plan features
  – ERISA fiduciary responsibilities
  – Legislative and regulatory changes affecting the plan
• Written documentation of all key decisions
  – Committee meeting minutes
  – Reports and information provided by outside experts
• Review Investment Policy Statement periodically
  – At least annually
  – Update Investment Policy Statement (IPS) as needed for changes in plan document, economic environment, financial industry (e.g., new products)
Habit #7
Charge a Fee for Service
Impact of Recent Regulations on Advisors

- **Services must be disclosed;** fiduciary and non-fiduciary
- **Registered Representative activity** limited to non-fiduciary services
- Registered Reps have not had to articulate value for non-fiduciary type services
- Chronic **fee confusion** for participants and plan sponsors
- Need to evaluate **positioning and protocols around IRA rollovers,** cross selling, and maintain best practice procedures to avoid penalties
- Need to **realign and reestablish value proposition** to comply with and support new regulations
What Are Investors Seeking From Advisors?

- Confidence During Turbulence
- Relationship-Based Pricing
- Transparency in Fees
- Retirement Readiness Results
Potential Fee-Based Benefits

- **Aligning Client Interest** – Fee-based pricing may align the advisor’s interests with their clients.
- **Objectivity** – The advisor is compensated based on the amount of their client’s assets, regardless of selected investment products.
- **Annuitize Revenues** – Fee-based pricing provides an ongoing revenue stream that typically provides the advisor with more stable income.
- **Client Retention** – Fee-based pricing often leads to deeper client relationships, improved client satisfaction and higher client retention.
- **Valuation** – Fee-based practices may be more attractive to acquire, leading to a higher multiple for selling a practice and/or creating a succession plan.
Pulse Logic Advisor Fee Benchmarking Tool

In an era of increased regulatory scrutiny and fee transparency it has become critical for advisors to have tools that help them articulate what they are charging, what services they deliver, and how that compares to industry standards. As such, BNY Mellon/Dreyfus has partnered with Pulse Logic, an independent defined contribution industry research firm, to create our Plan Advisor Service and Fee Benchmarking Tool.

Pulse Logic conducts quarterly surveys of over 500 defined contribution specialist advisors and collects specific data on the fees they charge and the services they provide. These advisors work with at least 10 plans, have a minimum of $10M in Defined Contribution (DC) AUM, and consider DC as one of their three top lines of business. These specialist advisors affiliate with wirehouse and independent broker dealers, as well as registered investment advisory firms. In aggregate, they manage over 15,000 plans.
Highly Scalable and Cost-Effective

We believe the BNY Mellon Plan Advisor Service and Fee Benchmarking Tool is extremely easy to produce and interpret. Simply provide us with the following six pieces of information for any of your plans:

1. Advisor Name
2. Plan Name
3. Plan Type
4. Plan Assets
5. Plan Participants
6. Plan Locations

We will then provide you with a free report that will give you and your clients a better understanding of the fees you are charging for the services you are delivering.
Output

The data collected allows Pulse Logic to produce comprehensive advisor benchmarking reports, segmented by plan size that:

- Demonstrate advisor fee ranges based on participant count, plan type, and number of plan locations
- Includes specific fee averages and tight fee ranges
- Segment fee spectrums by advisor approach and the services they provide
- Reveal the frequency specific services are offered and how they are offered (i.e., standard, optional or not available)
- Show how advisors structure their fee schedules
- Unearth how advisors are paid, the source of payments, the method they are calculated, and how plan characteristics influence advisor fees

These reports can provide guidance for 401(k), 403(b), and 457 plans with total assets of one million to fifty million dollars.
The Formula

I. Identify the pain
II. Improve participant outcomes
III. Leverage inertia
IV. Act as a fiduciary
V. Have a consistent IRA rollover strategy
VI. Document everything
VII. Charge a fee for service
Learn more. For more information, please call 1-800-992-5560

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